Hudson's Bay Company

Annual Report 1977

Contents

The 309th Annual General Meeting of Shareholders will be held at the Winnipeg Inn, Winnipeg, Manitoba, on May 19, 1978 at 12:00 noon.

Shareholders wishing to receive annual reports of Hudson's Bay Oil and Gas Company Limited, Siebens Oil & Gas Ltd., and/or Markborough Properties Limited, are invited to write to The Secretary, Hudson's Bay Company, 2 Bloor Street East, Toronto, Ontario, M4W 3H7.

On peut obtenir ce rapport annuel en français sur demande.

Bay buyers achieve fashion leadership
The photographs in this report reflect the success of our buyers in establishing The Bay in a position of leadership in women's fashion—see page 8.

Financial Highlights

	1977	1976	increase
	$	$	%
Sales and revenue	**1,427,390,000**	1,346,448,000	**6.0**
Net earnings	**29,881,000**	24,810,000	**20.4**
Cash flow	**48,209,000**	47,645,000	**1.2**
Capital expenditures	**43,075,000**	38,163,000	**12.9**
Shareholders' equity	**275,964,000**	254,422,000	**8.5**
Per share:			
Earnings	**2.12**	1.77	**19.8**
Dividends	**.65**	.60	**8.3**
Equity	**19.50**	18.05	**8.0**

Directors' Report to Shareholders

Your directors are pleased to report that your Company achieved an increase in earnings in 1977, a year in which the rate of growth in Canadian consumer spending slowed dramatically. Earnings rose to $29,881,000 ($2.12 per share) from $24,810,000 ($1.77 per share) in 1976.

Higher earnings from merchandising and natural resources contributed to the improved results; real estate earnings were down. A reduction in the rate of income tax, arising from the inventory allowance introduced in 1977, accounted for 19¢ per share of the earnings increase.

Sales and revenue increased by 6% to $1,427,390,000.

In merchandising, retail profits were substantially higher. Wholesale profits were also higher, but did not keep pace with gains in volume. World fur markets were strong and Company profits from this source were up, although a substantial part of the increase was due to foreign exchange gains which, after income taxes and minority interest, amounted to 2¢ per share.

Land sales of Markborough Properties Limited, 64.3% owned, follow an uneven pattern from year to year, and 1977 was an off year with land sales down 38%. Consequently, our real estate earnings declined. Higher prices for crude oil and natural gas resulted in increased earnings from natural resources. Further information on each of these areas of activity will be found on the following pages.

The Company's effective tax rate was reduced from 43.2% to 33.6% principally because of the introduction of the inventory tax allowance. The allowance is designed to alleviate the adverse impact of inflation on working capital of companies which have to replace inventories at rising prices.

Finance costs increased by 12%, owing to higher borrowings. The average borrowing rate was 8.6%, unchanged from 1976. Cash flow from operations was $48,209,000, an increase of 1.2%, and a further $77,062,000 was obtained from the issue of new long-term debt.

Capital expenditures increased by 12.9% to $43,075,000 of which $36,398,000 related to merchandising projects, principally in respect of new stores and major renovations to existing stores. Real estate projects accounted for a further $6,676,000. Working capital increased by $33,944,000. Other major uses of funds included dividend payments, $9,181,000, repayment of long-term debt of $11,678,000, and the acquisition of a 34.7% interest in Eaton/Bay Financial Services for a total consideration of $16,042,000. This company markets life and general insurance, mutual funds and trust company services, principally to department store customers through direct mail and sales counters in retail stores. For some time we had considered the marketing of financial services as a sensible extension of our merchandising activities, and we concluded that purchase of an interest in this innovative and successful company was the best avenue of entry to the field. Eaton/Bay Financial Services will open Bay Financial Centres in eight of our department stores in 1978, with further openings planned for subsequent years.

The Board has declared a semi-annual dividend of 34.5¢ per share, payable on April 28, 1978, to shareholders of record on March 24, 1978. This is an increase of 2¢ per share over the semi-annual dividends paid last year, and is the maximum permitted under the Anti-Inflation Program.

Subsequent to the year end the Company disposed of its investment of 470,494 shares of The Glenlivet Distillers Limited, a distiller of Scotch whiskies, the Seagram Corporation having made an offer of £5.10 for each of the outstanding Glenlivet shares. The net gain of approximately £1,800,000 on the transaction will be reported as an extraordinary item for the year ending January 31, 1979.

Canada's Anti-Inflation Program is being phased out over the period April 14 to December 31, 1978. Price, profit and dividend controls will continue to apply to the Company until October 31, 1978. Compensation for the majority of employees will be controlled until December 31, 1978.

The Anti-Inflation Program, introduced in October 1975, had some measure of success in checking the inflationary spiral. Unfortunately, the annual rate of increase in the consumer price index is now running close to the level which prevailed when the Program was introduced. This is partly because of external elements, including the decline of the Canadian dollar, and higher fuel and food costs.

The controls on prices and profits have had no appreciable impact on the Company because market conditions intervened and competitive pressures have held merchandising profits to levels lower than those allowed under the Program rules.

The Canadian economy is now in a precarious position, with inflation a continuing problem, unemployment at an historically high level, and the dollar under severe pressure on foreign exchange markets. In this situation it is essential that all Canadians, including leaders of business, government and labour, exercise restraint after controls are lifted, so that the business sector may be encouraged to make new investments and thereby create the jobs so necessary for future prosperity.

Don McGiverin and George Richardson on the fashion floor in the Montreal Downtown Store.

In this respect, we are optimistic about long-term economic prospects, and plan to increase our capital expenditures this year to an amount in excess of $60,000,000, of which about 80% will be invested in merchandising facilities, and the balance in real estate.

We do not, however, expect a strong resurgence in the Canadian economy in the current year. We look for a continuation through 1978 of most of the economic trends of the year just ended, including slow growth in consumer spending.

Real estate earnings will improve if land registrations take place as anticipated. The outlook continues to be favourable for higher earnings from natural resources. In the key merchandising area, competition will be intense, and improved results will depend mainly on the success of our efforts to increase productivity and efficiency. Our innovative merchandising programs, our stronger promotional presence, our attractive shopping surroundings, and our keen and competent personnel give us confidence that we can meet the challenge.

J. Bartlett Morgan, who was President of Henry Morgan & Co. Ltd. when that firm was acquired by Hudson's Bay Company in 1960, and has served ably on your Board since then, has decided not to seek re-election as a director. Ronald E. Sheen, Vice-President, Department Stores since 1974, and a director since 1964, retired on January 31, 1978. One of the Company's most able and experienced merchants, he held senior retail positions in Vancouver, Calgary, Winnipeg and Toronto during a 41-year career. For the past three years he was in charge of the Company's major department stores where his vigorous and forthright leadership contributed greatly to improved results. Two other senior officers, D. H. Pitts, General Manager, Northern Stores Department, and G. A. Burrows, General Manager, Wholesale Department, retired on February 28, 1978. Both had lengthy and distinguished careers with the Company and made important contributions to its welfare. We record our gratitude to Messrs. Morgan, Sheen, Pitts and Burrows, and extend our best wishes for the future.

To all our 20,000 employees for their concerted and dedicated efforts, and to our customers, our suppliers, and our shareholders for their continued support, we express our sincere appreciation.

On behalf of the Board

G. T. RICHARDSON
Governor

D. S. McGIVERIN
President

March 10, 1978.

The principal activities of the Company are in the merchandising sector, comprising Retail, Wholesale and Fur operations. Earnings from merchandising before tax and interest were $56,682,000 in 1977, an increase of 16.1% over the previous year.

Retail

The increase in retail sales in 1977 was only 2.7%, compared with 11.2% in 1976, and an average for the five years 1972-76 of 17.7%. This undoubtedly reflects the impact of wage controls, higher unemployment, and increased savings, all of which, combined with higher costs for fuel, food and taxes, left the consumer with reduced amounts for discretionary spending. Sales were virtually flat throughout the first half of the year, but built some momentum during the fall towards a reasonably satisfactory showing in the key month of December. On a regional basis, sales were strongest in the North, and weakest in Quebec, where an already sluggish economy was adversely affected by political uncertainties.

Gross profit margins were improved for two reasons: increased effectiveness of the Company's central merchandising programs, and a shift in the blend of sales from low markup items such as appliances, to higher markup fashion merchandise. With wages under Government control, the upward pressure on expenses was somewhat reduced from recent years. For the second consecutive year, results were disappointing for the Shop-Rite division. Shop-Rite has sixty catalogue stores in Ontario. The fall catalogue, the key sales promotion vehicle for this division, was under-priced by a competitor's catalogue. Remedial actions, including price reductions to totally competitive levels were only partially successful in protecting sales volume. However, because of effective control of expenses and inventory, results were marginally better than those of the previous year.

Our expansion program picked up momentum in 1977, having slowed temporarily the previous year. New stores, all in shopping centre developments, were opened as follows:

Location of Store	Size in Sq. Ft.
Chicoutimi, Quebec	87,000
Cranbrook, B.C.	82,000
Camrose, Alberta	40,000
New Liskeard, Ontario	30,000
Brooks, Alberta	25,000
Ignace, Ontario	15,000

In Montreal, the Boulevard store was modernized and expanded, and the mall, in which it is located, was enclosed. At Yorkton, Saskatchewan, we moved to a new 40,000 sq. ft. store in a shopping centre location. Important modernization

projects were completed at downtown stores in Montreal, Regina, Calgary, Edmonton and Vancouver. Stores at Mistassinni, Quebec; Pickle Lake and Red Sucker Lake in Ontario; and Beauval and Southend in Saskatchewan, were rebuilt. We purchased a store in Chevery, Quebec. In addition, seven small stores were increased in size.

Seven new stores are planned for 1978 opening, the three largest of which will be located in the new St. Bruno centre in Montreal, at the Greater Oshawa shopping centre, to the east of Toronto, and at the Park Royal centre in West Vancouver.

At the year end we sold our food business in seven Quebec communities to Provigo Inc. We believe the Company's interests in these communities will be best served by concentrating our efforts on and expanding our dry goods business.

During the current year, N.C.R. 280 point-of-sale terminals (cash registers) will be installed in our four Ottawa stores. This is part of an ongoing major investment by the Company in electronic data processing (EDP), which will see such terminals in use in all metropolitan area stores from Montreal to Victoria by 1979. Advanced credit system programs are already tied in to the terminals, and financial and merchandise systems are in the development stage. We anticipate that EDP systems will eventually assist our merchants in the control and management of the majority of items sold by the retailing divisions of the Company. We are confident that we are establishing a sound management information system vastly more advanced and versatile than manual alternatives, and one which will lead to improvements in almost every facet of our operations.

Left: Elegant ponchos from Iceland.

Right: Our exclusive Hudson's Bay Company coat.

Wholesale

Our Wholesale business continued to grow. Sales were ahead by 22.9% and earnings by 5.8%. The lower return on sales was due to inclusion of a higher proportion of low margin sales and to some temporary operating problems in the integration of a major new acquisition into the Vending Division.

The Department is now made up of two principal divisions: first there are 37 Wholesale branches, at which tobacco, confectionery, sporting goods, photographic supplies, small electricals, giftware, and associated items, are distributed to the retail trade. A new branch was opened in 1977 at Thunder Bay, Ontario. Secondly, Vending Division operations are located at 15 of the above Wholesale branches and at 13 separate Vending branches. From these locations tobacco and food are dispensed by approximately 20,000 Company-owned vending machines. The Vending Division was effectively doubled in size during the year by the purchase from Imasco Ltd. of the assets of Amco Services, a leading Canadian vending company.

Alluring Canadian-made peignoir set.

Fur

The wider popularity of fur garments which developed over the past few years continued during 1977 in most major types of fur. Prices reached a peak in the first half of the 1976-77 selling season. Then as demand levelled off, there was a moderate downward adjustment of prices in the second half of the year. The exception was Persian Lamb, which declined almost 50% in price from the all-time high for this variety reached in 1976. There were no further appreciable movements in price when the 1977-78 selling season opened last December.

Our auction houses depend on a selling commission for income. Since the commission is a percentage of selling price, the amount of commission income generated during the first half of the year was greater than in the second half. The overall result was to achieve aggregate record profits in the Company's wholly-owned auction houses in Montreal, New York, and Hudson's Bay and Annings, Ltd. (59% owned), in London.

Approximately two-thirds of the increase in fur earnings arose from currency conversions of the results of the London and New York operations into Canadian dollars at the higher rates prevailing for sterling and U.S. dollars.

Renovations to Beaver House in London were continued with the rebuilding of the Strathcona Room, which now provides fur trade buyers with modern restaurant and ancillary facilities.


Exotic kimonos from Japan.

Bay buyers achieve fashion leadership

More and more Canadian shoppers think of The Bay first for women's fashions. Our ready-to-wear and fashion accessory buyers aim to strengthen this trend. Their objective is to provide customers with fashion merchandise synonymous with quality and value—from our Baymart budget apparel right through to the famous designer lines carried in our Mirror Rooms.

The expertise of our commodity specialists enables The Bay to satisfy the increasingly sophisticated demands of the Canadian consumer.

This highly trained group of professional men and women interpret the demands of the Canadian market as much as a year in advance. By planning their purchases this far ahead, they allow themselves sufficient lead time to research the world market thoroughly for the best product to meet our criteria of fashion, quality and value. The amount of time devoted to research prior to procurement is one of the major reasons for our success. In order to maximize our strengths and minimize our risks, comprehensive buying plans are developed by the buyer—tracking future fashion trends, maintaining a high level of awareness of changing consumer demands, assessing past rates of sale, and receiving and acting on input from regional merchants.

Left: Accessories Department in the Montreal Downtown Store.

Centre: Spring fashion designed in Montreal

Right: Jeunesse Fashion Department in the Montreal Downtown Store

Cloche—new romance for spring!

Left: Classic fashion imported from France

Right: Fashionable Canadian-made separates

The Bay carries a wide range of cosmetics and jewellery . . .

. . . and fashion accessories from around the world.

Our constant quest for quality, value and fashion leadership takes our team of buyers throughout Canada and the rest of the world. Last year our women's fashion buyers and senior merchandise managers travelled the world, bringing our customers fashion distinction and new designs in shoes and handbags from the Far East, Italy, and South America; cashmere sweaters and silk shirts from Mainland China; silk kimonos from Japan; handknit sweaters from Iceland and Italy; dufflecoats, rainwear and handbags from England; natural cottons from India and California; vivid silk scarves, and luxurious leather and cashmere gloves from Italy.

A contributing factor to the success of our international buying program is our participation in the Associated Merchandising Corporation. A.M.C. comprises approximately fifty store groups, including many of the better-known department stores from the United States and Europe, who pool their resources to develop the world markets. A.M.C. market representatives are located in most countries, and work with suppliers to ensure they understand The Bay's specific requirements and adhere to our high quality standards.

Even though buying overseas is an important part of our business, direct importing accounts for only 10% of the women's fashion and fashion accessory sales volume. Canadian designers are rapidly developing international reputations for fashionable, distinctive merchandise, and Canadian manufacturers are producing quality products throughout the entire range of women's fashions. Canadian-produced merchandise continues to represent the backbone of our assortment.

Right: Ravishing evening dress from U.S.A.

Natural Resources

The Canadian petroleum industry operated at record levels in 1977 under the impetus of rising prices and the attendant improvement in cash flows, and the discovery of new reserves of oil and gas. Your Company has major investments in two Canadian petroleum companies, Hudson's Bay Oil and Gas Company Limited (H.B.O.G.), 21.1% owned, and Siebens Oil & Gas Ltd. (Siebens), 34.8% owned. Earnings from natural resources were $13,686,000 in 1977, an increase of 30.6%. These earnings comprise dividends received from H.B.O.G., and a 34.8% share of Siebens' earnings, accounted for on an equity basis.

Dividends received from H.B.O.G. were $6,173,000, up from $5,732,000 the year before. Our share of undistributed H.B.O.G. earnings for the year (which is not included in the reported earnings of H B C) increased to $14,691,000 from $10,891,000 in the previous year.

Our share of net earnings of Siebens was $5,605,000 for the year ended January 31, 1978, an increase of 52.8% over the previous year.

Hudson's Bay Oil and Gas Company Limited

In 1977 H.B.O.G. again recorded substantial gains in financial results with higher levels of revenues, funds generated from operations and net earnings. These financial gains were mainly due to increases in Canadian crude oil and natural gas prices, together with a major addition to crude oil production from properties in Indonesia purchased at year end 1976. Additions to reserves more than offset natural gas produced during the year but fell short of replacing the production of crude oil and natural gas liquids.

Net earnings of H.B.O.G. for 1977 were $98,940,000 or $5.22 per common share, an increase of 25.8% over 1976 earnings of $4.15 per common share. Funds generated from operations advanced by 34.9% to $188,960,000 or $9.97 per common share.

Total net revenues increased by 29.7% to $369,433,000. This substantial advance in revenues is chiefly the result of government controlled price increments in Canada and H.B.O.G.'s first year of crude oil production from Indonesia.

Production of crude oil and natural gas liquids rose by 15.5% to average 80,888 barrels per day. The major element in the increase came from operations in Indonesia where crude oil production averaged 9,841 barrels per day. Sales of natural gas of 408.7 million cubic feet per day were 2.2% below the previous year, with a substantial reduction in demand for deliveries from established fields largely offset by sales from new sources of production that were brought on stream during the year.

At the year end reserves were crude oil 208 million barrels, natural gas liquids 76 million barrels, and natural gas 3,380 billion cubic feet.

In 1977, capital expenditures and exploration expenses totalled $138,100,000 before deducting $7,500,000 in exploration incentives reimbursed by the Alberta government. These total outlays were $27,400,000 greater than the comparable expenditures in 1976.

H.B.O.G. is continuing an aggressive exploration and development program in 1978, with expenditures expected to be in excess of $150,000,000.

Siebens Oil & Gas Ltd.

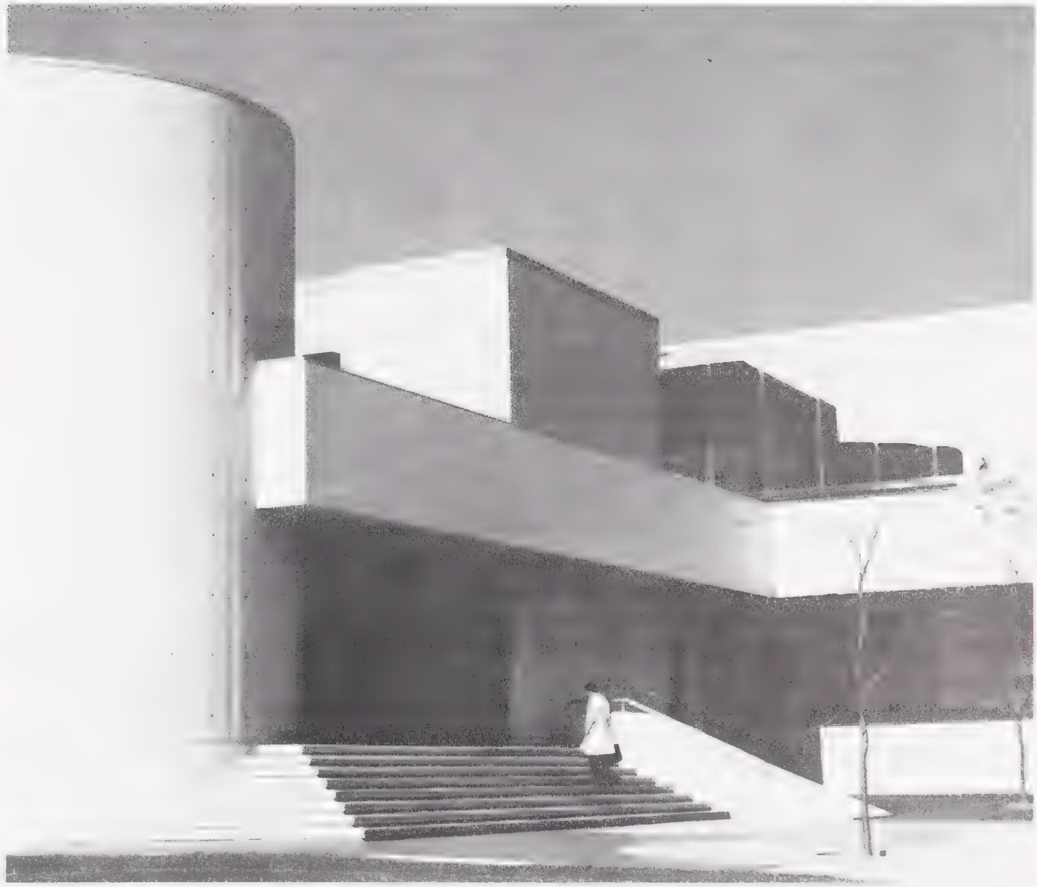
Siebens reported significant growth in cash flow and net earnings, mainly due to increased sales of natural gas, but also because of escalating oil and gas prices. Net earnings for the year ended October 31, 1977, amounted to $14,379,000 ($1.56 per share) compared to $1.16 per share the year before. There was a 41% increase in cash flow to $22,766,000 ($2.47 per share). Siebens spent $26,325,000 in 1977 in the search for new supplies of oil and gas, an increase of 46% over 1976 expenditures. Approximately 97% of these expenditures were spent to explore energy resources in Canada.

Siebens had an interest in a total of 334 wells drilled in Western Canada last year, and it expects to equal or exceed these drilling figures during the current year as the industry continues to explore for and develop new petroleum reserves at record levels.

Expenditures for oil and gas exploration in 1978 will be the largest in Siebens' history, totalling $35,000,000, with 85% of these funds expected to be spent in Canada. Siebens has predicted, based on information currently available, that cash flow and net earnings will increase in 1978 by 36% and 39% respectively.

Real Estate

Decreased revenue from land sales was the principal reason for a reduction in earnings from real estate before interest and taxes to $14,856,000, as against $23,207,000 in 1976. The Company's real estate interests (apart from land and buildings used in merchandising operations) consist principally of a 64.3% interest in Markborough Properties Limited (Markborough) and of whole or partial ownership in 15 shopping centres in Canada.



Markborough Properties Limited

Earnings of Markborough for the year ended October 31, 1977, declined to $3,786,000 ($1.07 per share) from $9,489,000 ($3.54 per share) the year before. Revenue from land sales was $23,078,000, compared with a record $40,933,000 in 1976. Two factors affecting land sales and related earnings were delays in obtaining registrations of subdivisions in Ontario, and a write-down of $2,100,000 to its estimated market value, of the first phase of the Villages of Homestead project in Florida. The early stages of such major developments are typically less profitable than those brought to market when the project has matured.

Revenue from income properties increased by 22.4% to $10,677,000.

Markborough's first enclosed shopping mall, Woodside Square, opened in May in the Scarborough area of Metropolitan Toronto. During the year Markborough entered the land development and home construction business in Phoenix, Arizona. Good results were achieved, with one tract of land having been brought into production within six months of acquisition. Further expansion in the United States is being pursued.

With the steps taken to expand and diversify its operations, Markborough expects that 1978 should be a reasonably good year.

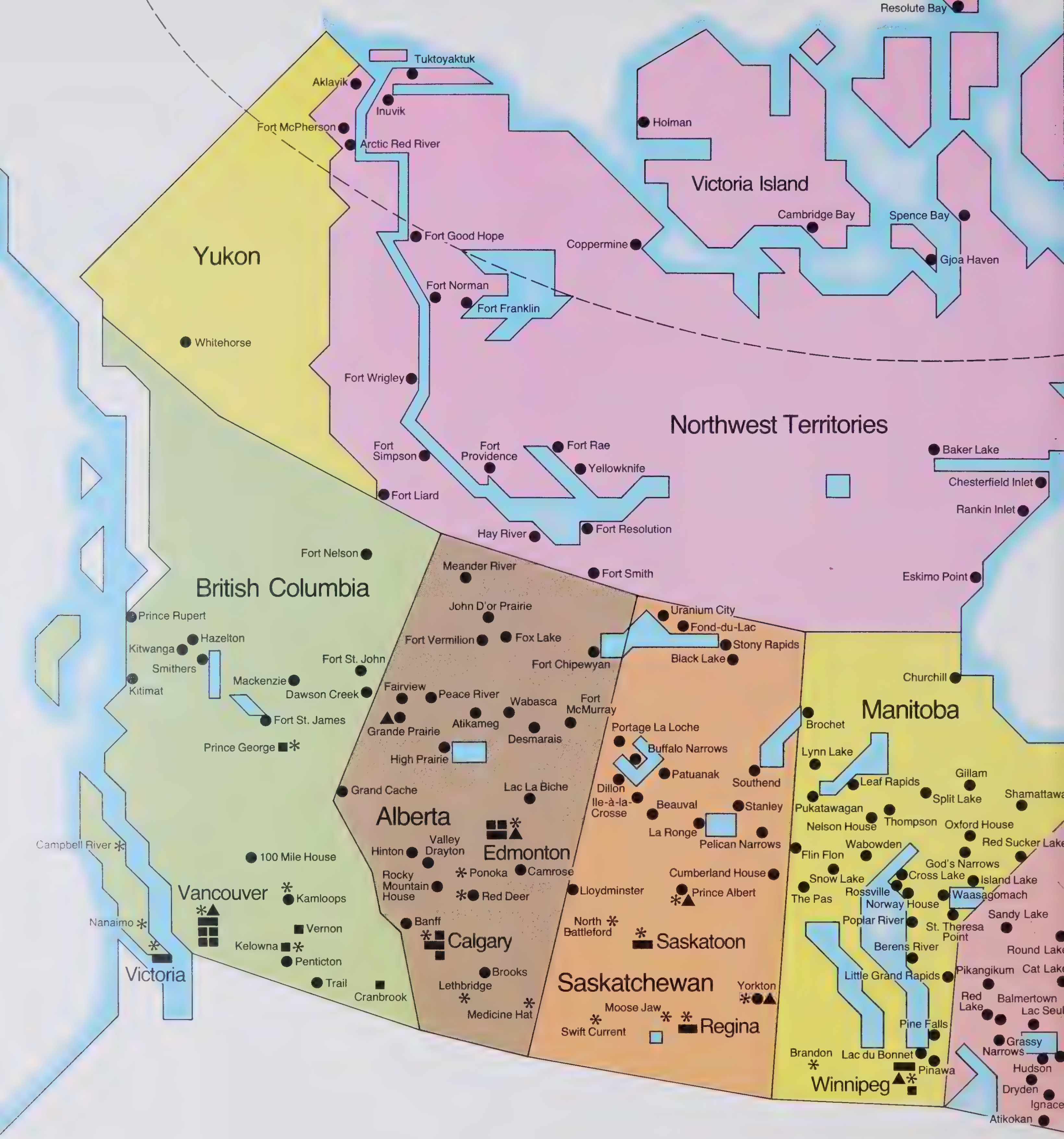
Hudson's Bay Company Real Estate

Earnings from real estate holdings other than Markborough, represented principally by investments in shopping centres, continued to improve in 1977. Construction was completed and leasing is in progress on two commercial buildings adjacent to our downtown stores in Montreal and Winnipeg.

Public acceptance of the mall enclosure and modernization of Cloverdale Mall in Toronto has been excellent and sales for the mall tenants of the centre have increased substantially since the mall enclosure was completed in September, 1976.

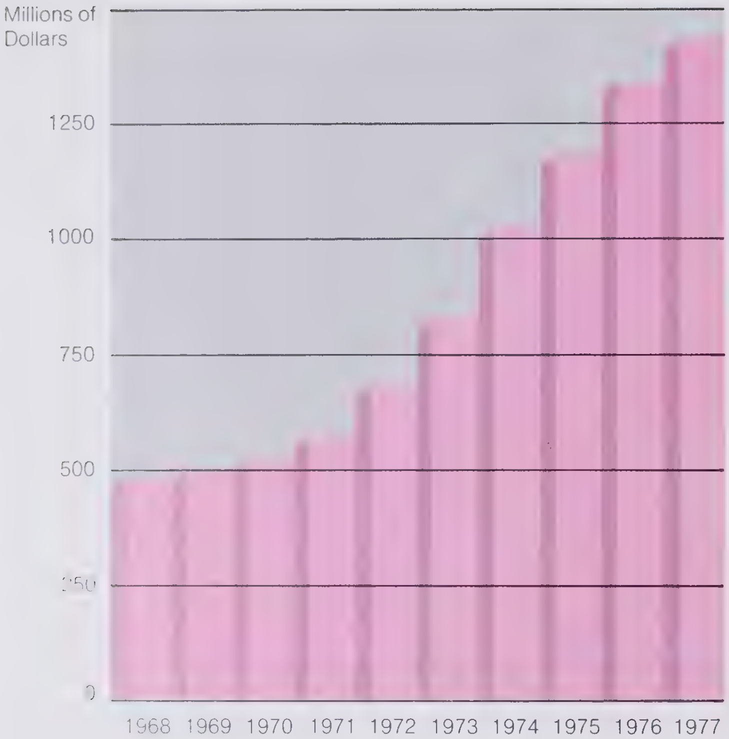
During the year three shopping centres, in which the Company has equity interests, were opened in Cranbrook, B.C.; Chicoutimi, Quebec; and Brooks, Alberta. We have found that equity ownership in well-located shopping centres, where the Company is a major tenant, is an attractive real estate investment. In addition, an ownership position provides us with a greater degree of input into the planning, development and management of the centres in which we are located and in which we seek excellence.

A summary of the Company's principal real estate holdings will be found on page 30 of this report.


Yukon
Northwest Territories
Victoria Island
British Columbia
Alberta
Saskatchewan
Manitoba
Resolute Bay
Tuktoyaktuk
Aklavik
Inuvik
Fort McPherson
Arctic Red River
Holman
Cambridge Bay
Spence Bay
Gjoa Haven
Coppermine
Fort Good Hope
Fort Norman
Fort Franklin
Whitehorse
Fort Wrigley
Fort Simpson
Fort Providence
Fort Rae
Yellowknife
Baker Lake
Chesterfield Inlet
Rankin Inlet
Fort Liard
Hay River
Fort Resolution
Fort Smith
Eskimo Point
Fort Nelson
Meander River
Prince Rupert
Hazelton
Kitwanga
Smithers
Kitimat
Mackenzie
Fort St. John
Dawson Creek
Fort St. James
Prince George
John D'or Prairie
Fort Vermilion
Fox Lake
Fort Chipewyan
Uranium City
Fond-du-Lac
Stony Rapids
Black Lake
Churchill
Fairview
Peace River
Wabasca
Fort McMurray
Grande Prairie
Atikameg
Desmarais
High Prairie
Grand Cache
Lac La Biche
Portage La Loche
Buffalo Narrows
Patuanak
Dillon
Ile-à-la-Crosse
Beauval
La Ronge
Southend
Stanley
Pelican Narrows
Brochet
Lynn Lake
Leaf Rapids
Gillam
Pukatawagan
Split Lake
Shamattawa
Nelson House
Thompson
Oxford House
Red Sucker Lake
Campbell River
100 Mile House
Hinton
Valley
Drayton
Edmonton
Rocky Mountain House
Ponoka
Camrose
Red Deer
Lloydminster
Cumberland House
Prince Albert
Flin Flon
Wabowden
Snow Lake
God's Narrows
Cross Lake
Island Lake
The Pas
Rossville
Norway House
Waasagomach
Sandy Lake
Vancouver
Kamloops
Nanaimo
Vernon
Kelowna
Penticton
Victoria
Trail
Cranbrook
Banff
Calgary
Brooks
Lethbridge
Medicine Hat
North Battleford
Saskatoon
Yorkton
Moose Jaw
Swift Current
Regina
Poplar River
St. Theresa Point
Round Lake
Berens River
Little Grand Rapids
Pikangikum
Cat Lake
Red Lake
Balmertown
Lac Seul
Pine Falls
Grassy Narrows
Brandon
Lac du Bonnet
Pinawa
Winnipeg
Hudson
Dryden
Ignace
Atikokan

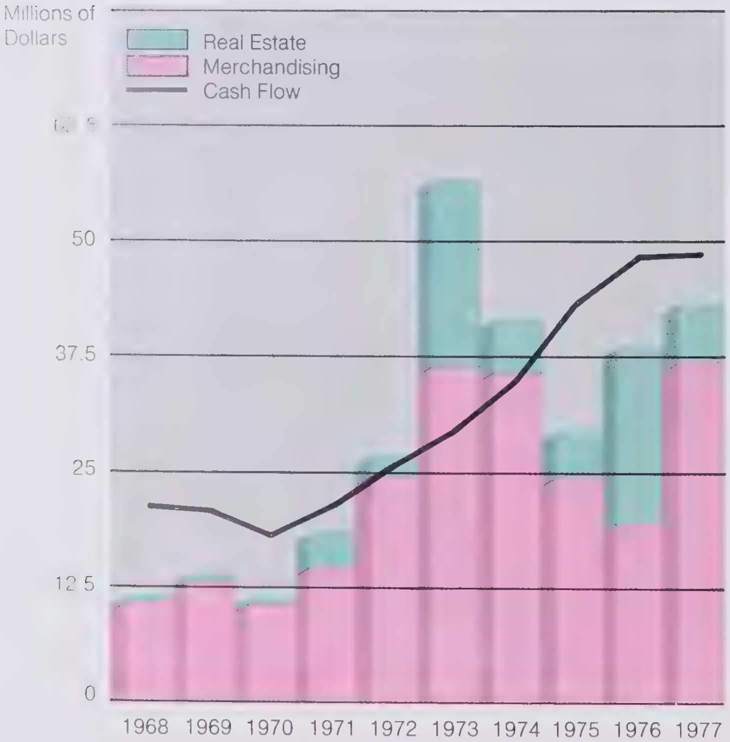

Hudson's Bay Company
INCORPORATED 2ND MAY 1670
Canadian Operations January 31, 1978
Retail Stores
Over 175,000 sq. ft. (10)
75,000-175,000 sq. ft. (29)
Under 75,000 sq. ft. (225)
Wholesale Branches (48)
Fur Auction (1)
Fur Offices (11)
Excludes Shop Rite stores in Ontario (62)
Arctic Circle
Baffin Island
Pond Inlet
Clyde
Broughton Island
Igloolik
Hall Beach
Pangnirtung
Repulse Bay
Cape Dorset
Frobisher Bay
Lake Harbour
Coral Harbour
Sugluk
Wakeham Bay
Payne Bay
Povungnituk
Fort Chimo
Hudson Bay
Inukjuak
Sanikiluaq
Great Whale River
Schefferville
Rigolet
Cartwright
North West River
Goose Bay
Happy Valley
Newfoundland
Blanc Sablon
St. Paul's River
St. Augustin
La Tabatière
Chevery
Romaine
Labrador City
Grand Falls
St. John's
Stephenville
Québec
Fort George
Paint Hills
Eastmain
Gagnon
Havre St-Pierre
Rivière-au-Tonnerre
Maliotenam
Sept-Îles
Port Cartier
Baie-Comeau
Hauterive
Betsiamites
Chicoutimi
Forestville
Pointe Bleue
Mistassini
Chibougamau
Chapais
Matagami
Obedjiwan
Senneterre
Québec
Portneuf
Manouane
St-Jérôme
Montréal
Murdochville
Chandler
Bathurst
P.E.I.
Summerside
New Brunswick
Nova Scotia
Halifax
Severn
Bearskin Lake
Attawapiskat
Kashechewan
Albany
Trout Lake
Webequie
Moosonee
Moose Factory
Rupert House
Wunnummin Lake
Lansdowne House
Ontario
Osnaburgh
Fort Hope
Ogoki
Hearst
Nakina
Geraldton
Longlac
Smooth Rock Falls
Hornepayne
Schreiber
Manitouwadge
Iroquois Falls
Nipigon
Marathon
Wawa
New Liskeard
White River
Foleyet
Gogama
North Bay
Russell
Sudbury
Elliot Lake
Sault Ste. Marie
Ottawa
Bancroft
Carleton Place
Jackson's Point
Owen Sound
Toronto
Waterloo
Hamilton
Thorold
London

Revenue

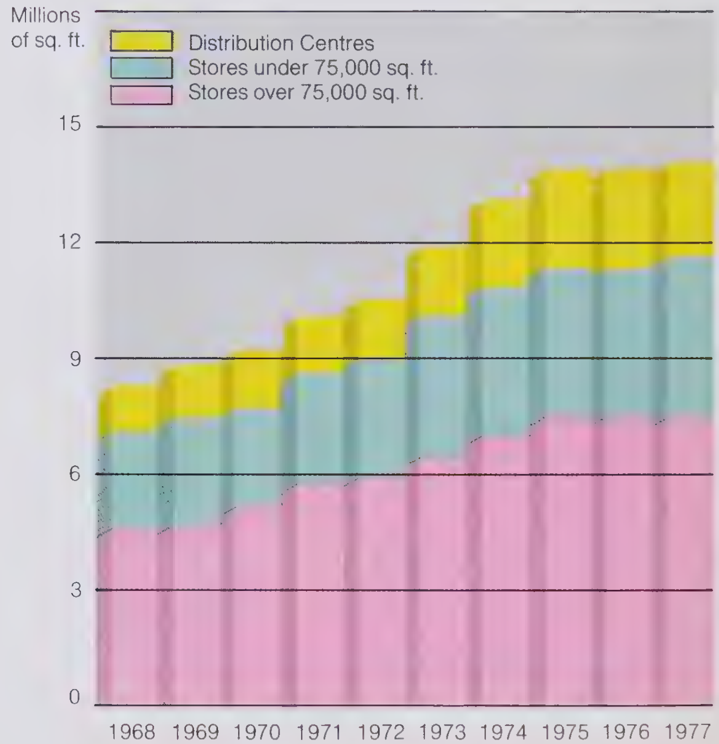


Earnings

Capital Expenditure and Cash Flow



Retail Facilities



Hudson's Bay Company
Consolidated Statement of Earnings

Year Ended January 31, 1978

	This Year	Last Year
		(Restated—Note 1b)
Sales and revenue (Note 2)	$	$
Merchandising		
Retail	1,019,831,000	992,575,000
Wholesale	323,810,000	263,461,000
Fur	34,059,000	26,987,000
	1,377,700,000	1,283,023,000
Real estate	36,004,000	52,945,000
Natural resources	13,686,000	10,480,000
	1,427,390,000	1,346,448,000
Costs and expenses (Note 3)		
Merchandising	1,321,018,000	1,234,193,000
Real estate	21,148,000	29,738,000
Interest on long-term debt	34,813,000	28,097,000
Net short-term interest	2,538,000	5,346,000
	1,379,517,000	1,297,374,000
Earnings before income taxes and minority interest	47,873,000	49,074,000
Income taxes (Note 2)	16,095,000	21,184,000
Earnings before minority interest	31,778,000	27,890,000
Minority interest	1,897,000	3,080,000
Net earnings	29,881,000	24,810,000
Earnings per share	$2.12	$1.77

Consolidated Statement of Retained Earnings

Year Ended January 31, 1978

	This Year	Last Year
	$	$
Retained earnings at beginning of year	210,640,000	194,221,000
Net earnings	29,881,000	24,810,000
Dividends paid	(9,181,000)	(8,391,000)
Retained earnings at end of year	231,340,000	210,640,000

Hudson's Bay Company
Consolidated Balance Sheet

January 31, 1978

	This Year	Last Year
		(Restated—Note 1b)
Current assets	**$**	$
Cash	**5,854,000**	4,746,000
Short-term securities at market value	**7,623,000**	6,646,000
Accounts receivable	**267,803,000**	232,691,000
Merchandise inventories	**215,713,000**	192,540,000
Prepaid expenses	**4,926,000**	5,223,000
	501,919,000	441,846,000
Property for sale and future development, at cost	**95,675,000**	78,017,000
Secured receivables (Note 4)	**24,851,000**	31,825,000
Investments (Note 5)	**68,456,000**	48,662,000
Fixed assets		
Land, at cost	**34,934,000**	33,931,000
Buildings, at cost	**257,074,000**	245,742,000
Equipment and leasehold improvements, at cost	**148,653,000**	123,993,000
	440,661,000	403,666,000
Less accumulated depreciation	**127,830,000**	117,436,000
	312,831,000	286,230,000
Deferred charges	**7,898,000**	6,442,000
Goodwill	**22,217,000**	22,217,000
	1,033,847,000	915,239,000

On behalf of the Board:

George T. Richardson Director

D. McGiverin Director

	This Year	Last Year
		(Restated—Note 1b)
Current liabilities	$	$
Bank indebtedness	**46,634,000**	41,856,000
Notes payable	**24,837,000**	22,497,000
Accounts payable and accrued expenses	**137,226,000**	122,173,000
Income taxes payable	**5,822,000**	2,337,000
Long-term debt due within one year	**5,422,000**	4,950,000
	219,941,000	193,813,000
Long-term debt (Note 6)		
Mortgages	**85,664,000**	61,045,000
Bonds, notes and debentures	**380,536,000**	339,771,000
	466,200,000	400,816,000
Pensions (Note 7)	**2,628,000**	2,460,000
Deferred income taxes	**47,806,000**	43,706,000
Minority interest in subsidiaries	**21,308,000**	20,022,000
Shareholders' equity		
Capital stock (Note 8)		
Ordinary shares without par value		
Authorized 20,000,000 shares		
Issued 14,154,768 shares		
(last year 14,095,593 shares)	**44,624,000**	43,782,000
Retained earnings	**231,340,000**	210,640,000
	275,964,000	254,422,000
	1,033,847,000	915,239,000

Hudson's Bay Company
Consolidated Statement of Assets Employed

January 31, 1978

	This Year	Last Year
		(Restated—Note 1b)
Merchandising	**$**	$
Inventories	**215,713,000**	192,540,000
Accounts receivable	**255,160,000**	224,729,000
Accounts payable	**(127,539,000)**	(113,096,000)
Other current assets, net	**5,814,000**	6,468,000
Working capital (see below)	**349,148,000**	310,641,000
Fixed assets	**222,058,000**	200,947,000
Investments	**23,960,000**	6,124,000
Other assets	**11,572,000**	10,708,000
Pensions	**(2,628,000)**	(2,460,000)
Deferred income taxes	**(23,649,000)**	(20,103,000)
	580,461,000	505,857,000
Real estate		
Working capital (see below)	**2,100,000**	49,000
Property for sale and future development	**95,675,000**	78,017,000
Fixed assets and investments:		
Shopping centres	**55,010,000**	41,332,000
Commercial	**41,198,000**	47,628,000
Residential	**9,466,000**	14,980,000
Secured receivables	**20,044,000**	26,924,000
Other assets	**1,133,000**	635,000
Goodwill	**22,217,000**	22,217,000
Deferred income taxes	**(24,157,000)**	(23,603,000)
	222,686,000	208,179,000
Natural resources		
Hudson's Bay Oil and Gas Company Limited	**10,095,000**	10,095,000
Siebens Oil & Gas Ltd.	**19,500,000**	13,786,000
	29,595,000	23,881,000
Assets employed	**832,742,000**	737,917,000
Provided from		
Bonds and debentures	**380,536,000**	339,771,000
Mortgages	**85,664,000**	61,045,000
Short-term borrowings, net (see below)	**69,270,000**	62,657,000
	535,470,000	463,473,000
Minority interest in subsidiaries	**21,308,000**	20,022,000
Shareholders' equity		
Capital stock	**44,624,000**	43,782,000
Retained earnings	**231,340,000**	210,640,000
	275,964,000	254,422,000
	832,742,000	737,917,000

Working capital is shown before deduction of short-term borrowings, net—which comprises bank borrowings, short-term notes payable and current portion of long-term debt, less short-term securities.

Hudson's Bay Company
Consolidated Statement of Changes in Financial Position
Year Ended January 31, 1978

	This Year	Last Year
		(Restated—Note 1b)
Source of funds	$	$
Earnings before minority interest	**31,778,000**	27,890,000
Items not affecting working capital		
Equity in undistributed earnings of affiliates and joint ventures	**(5,035,000)**	(5,346,000)
Depreciation and amortization	**17,366,000**	15,282,000
Deferred income taxes	**4,100,000**	9,819,000
Provided from operations	**48,209,000**	47,645,000
Other investments	**1,284,000**	1,278,000
Long-term debt	**77,062,000**	61,464,000
Issue of shares	**842,000**	1,661,000
Decrease in secured receivables	**6,974,000**	—
	134,371,000	112,048,000
Use of funds		
Investment in Eaton/Bay Financial Services Limited	**16,042,000**	—
Capital expenditures — merchandising	**36,399,000**	19,295,000
Capital expenditures — real estate	**6,676,000**	18,869,000
Property for sale and future development — net	**17,658,000**	20,000,000
Increase in secured receivables	**—**	13,905,000
Repayment of long-term debt	**11,678,000**	9,876,000
Dividends	**9,181,000**	8,391,000
Deferred charges	**2,349,000**	1,652,000
Other — net	**443,000**	1,539,000
	100,426,000	93,527,000
Increase in working capital	**33,945,000**	18,521,000
Working capital at beginning of year	**248,033,000**	229,512,000
Working capital at end of year	**281,978,000**	248,033,000
Changes in components of working capital		
Increase in net short-term borrowings	**(6,613,000)**	(38,815,000)
Accounts receivable	**35,112,000**	34,894,000
Merchandise inventories	**23,173,000**	19,820,000
Accounts payable and other	**(17,727,000)**	2,622,000
	33,945,000	18,521,000

Hudson's Bay Company
Notes to the Consolidated Financial Statements

Year Ended January 31, 1978

1. Accounting policies

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in Canada. The significant policies are summarized below:

a) The consolidated financial statements include Hudson's Bay Company and all its subsidiary companies.

b) Under the equity accounting method the Company reflects in earnings its equity in the income of Siebens Oil & Gas Ltd., Eaton/Bay Financial Services Limited and joint ventures in which the Company has significant influence over operating and financial policies. The investments in these enterprises are recorded at cost plus the Company's equity in their undistributed earnings since acquisition or formation. Investments in other companies, including Hudson's Bay Oil and Gas Company Limited, are accounted for at cost and dividends are reflected in earnings when received.

Prior to the recent pronouncement of The Canadian Institute of Chartered Accountants concerning accounting for investments in joint ventures, it was the practice to present in the consolidated financial statements the share of assets, liabilities, revenues and expenses relating to joint ventures of Markborough Properties Limited, a subsidiary company, on the proportionate line-by-line basis. Figures for last year as shown in these financial statements have, where appropriate for comparative presentation purposes, been restated to conform to the equity accounting method although this change in presentation has no effect on either shareholders' equity or net earnings.

c) The accounts of the U.S. and U.K. subsidiaries are translated into Canadian dollars at approximately the exchange rates prevailing at balance sheet dates.

d) Interest and real estate taxes are capitalized to the extent that they relate to properties which are either held for sale or development or are under construction. The amount so capitalized in the current year includes interest of $5,569,000 (last year $5,021,000).

e) Earnings per share calculations are based on the weighted average number of shares outstanding during the year.

f) In accordance with recognized industry practice, merchandise accounts receivable classified as current assets include customer instalment accounts of which a portion will not become due within one year.

g) Merchandise inventories are valued at the lower of cost and net realizable value with cost determined on a first-in, first-out basis.

h) Buildings (other than income properties), equipment and leasehold improvements are depreciated, using the straight-line method, at rates which will fully depreciate the assets over their estimated useful lives. The depreciation rates applicable to the various classes of assets are as follows:

Buildings	2 - 5%	Transport	12 - 20%
Leasehold improvements	3 - 10%	Other equipment	7 - 15%

Buildings held for the purpose of producing rental income are depreciated on a 3% 40-year sinking fund basis. Under this method the depreciation charged against earnings is an amount which increases annually and comprises a predetermined fixed sum and 3% compound interest, which together will fully depreciate each building over a 40-year period.

i) Deferred charges principally comprise debenture discount and expense which is amortized on the straight-line method over the terms of the issues to which it relates. The amortization is included with interest on long-term debt in the consolidated statement of earnings.

j) Goodwill is the excess of cost over the fair value of net tangible assets on the purchase of the controlling interest in Markborough Properties Limited in 1973.

k) Current pension costs, substantially all of which arise under trusteed pension plans, are charged to operations. The costs of plan improvements are charged to operations over reasonable periods as they are funded.

2. Investment income

Investment income, accounted for under the policy set out in note 1 b), is included in revenue. The Company's equity in the pretax income of companies and joint ventures accounted for under the equity accounting method amounts to $9,817,000 (last year $8,647,000) and the related income taxes of $2,837,000 (last year $2,881,000) are included within the consolidated income tax charge. Dividends received from other companies amount to $6,277,000 (last year $5,804,000).

3. Depreciation

Expenses include the following depreciation charged in accordance with the policy outlined in note 1 h): on merchandising assets $15,287,000 (last year $13,580,000); on real estate assets $1,186,000 (last year $1,018,000).

4. Secured receivables

a) Secured receivables include mortgages which arise principally from land transactions and loans outstanding under the employee share purchase plan.

b) Secured receivables at January 31, 1978 bear interest at an average rate of 8.6% and mature as follows:

		$
Year ending January 31,	1979	10,349,000
	1980	4,938,000
	1981	10,054,000
	1982	671,000
	1983	1,397,000
Subsequent to January 31, 1983		7,791,000
		35,200,000
Less amounts due within one year classified as accounts receivable		10,349,000
		24,851,000

Under certain conditions, the amounts due may be paid prior to maturity.

5. Investments

Investments comprise the following:

	This Year	Last Year
	$	$
Hudson's Bay Oil and Gas Company Limited	10,095,000	10,095,000
Siebens Oil & Gas Ltd.	19,500,000	13,786,000
Eaton/Bay Financial Services Limited	16,237,000	—
Other	22,624,000	24,781,000
	68,456,000	48,662,000

a) Hudson's Bay Oil and Gas Company Limited (H.B.O.G.)

The investment in H.B.O.G., carried at cost, consists of 4,008,656 common shares of which 2,083,334 have been placed in escrow with The Royal Trust Company pursuant to the Trust Indenture providing for the Company's $100 million 6% exchangeable subordinated debentures.

	Per Share	
	$	$
Investment		
At cost	2.52	10,095,000
At underlying H.B.O.G. book value December 31, 1977	21.44	85,939,000
At quoted market The Toronto Stock Exchange January 31, 1978	43.00	172,372,000

The common shares of H.B.O.G. are held 52.8% by Continental Oil Company, 21.1% by the Company and 26.1% by 8,400 other shareholders.

b) Siebens Oil & Gas Ltd. (Siebens)

The investment in Siebens, accounted for under the equity accounting method, consists of 3,203,000 shares, representing 34.8% of the total issued common shares of that company. The book value of this investment at January 31, 1978 is $19,500,000 which approximates the underlying Siebens book value. The market quotation at January 31, 1978 on The Toronto Stock Exchange was $23.87 per share for a total of $76,456,000.

c) Eaton/Bay Financial Services Limited

On October 5, 1977, the Company acquired 531,619 common shares (34.7%) of Eaton/Bay Financial Services Limited at a total cost of $16,042,000. This investment is accounted for under the equity accounting method and the cost has been allocated as follows:

Company's interest in net assets at Eaton/Bay Financial Services Limited book value	$12,802,000
Adjustment to fair value of Company's interest in investment portfolio	678,000
Company's interest in insurance in force on date of acquisition and goodwill (to be amortized by the straight-line method over a period of 20 years)	2,562,000
	$16,042,000

d) Other

Other investments include joint ventures accounted for under the equity accounting method.

6. Long-term debt

	This Year $	Last Year $
Secured on Property		
Hudson's Bay Company Properties Limited		
5¾% first mortgage bonds series A due 1990	11,045,000	11,945,000
7½% first mortgage bonds series B due 1991	7,272,000	8,225,000
11½% first mortgage bonds series C due 1995	32,375,000	33,250,000
9⅞% first mortgage bonds series D due 1997	45,000,000	—
Hudson's Bay Company Developments Limited		
Mortgages 9.7% average repayable by instalments to 2002	15,494,000	2,571,000
Hudson's Bay Company Properties (Quebec) Limited		
Mortgages 5.7% average repayable by instalments to 1986	1,002,000	2,909,000
Markborough Properties Limited		
8½% sinking fund debentures due 1982	8,500,000	10,000,000
Mortgages and obligations on land for future development 9.0% average repayable by instalments to 1990	40,469,000	33,402,000
Mortgages on income properties 9.7% average repayable by instalments to 2004	31,746,000	24,738,000
	192,903,000	127,040,000
Secured on Accounts Receivable		
Hudson's Bay Company Acceptance Limited		
6% debentures series A due 1980	10,000,000	10,000,000
5¾% debentures series B due 1983	10,000,000	10,000,000
9¾% debentures series C due 1989	18,719,000	18,726,000
8¾% debentures series D due 1991	20,000,000	20,000,000
8¼% debentures series E due 1993	20,000,000	20,000,000
10½% debentures series F due 1996	35,000,000	35,000,000
	113,719,000	113,726,000

Unsecured		
Hudson's Bay Company		
9¾% series C notes due 1979	30,000,000	30,000,000
10¼% notes due 1981	35,000,000	35,000,000
	65,000,000	65,000,000
Subordinated		
Hudson's Bay Company		
6% exchangeable debentures due 1993, sinking fund commencing 1984	100,000,000	100,000,000
	471,622,000	405,766,000
Bonds and debentures due within one year	(2,375,000)	(2,375,000)
Mortgage principal due within one year	(3,047,000)	(2,575,000)
	466,200,000	400,816,000

Maturities and sinking fund requirements during the five years ending January 31, 1983 are as follows:

1979—$ 5,422,000 1980—$38,162,000 1981—$34,522,000
1982—$42,094,000 1983—$ 5,955,000

The holders of the Hudson's Bay Company Acceptance Limited 9¾% debentures will have the right to be prepaid in 1980.

The holders of Hudson's Bay Company 6% exchangeable subordinated debentures have the right to exchange such debentures for outstanding common shares of Hudson's Bay Oil and Gas Company Limited at an exchange price of $48 per share at any time prior to maturity.

7. Pensions

The unfunded liabilities for pension plans are estimated to aggregate approximately $10,500,000 and they will be funded over various periods not exceeding 14 years.

The pension provision of $2,628,000 is net of related deferred income taxes. Of the provision, approximately $1,350,000 relates to amounts which will be required to fund the liability for pensioners orginally retired under unfunded schemes and now being paid from a trusteed plan. The remainder is expected to be adequate to provide for the payment of pension benefits which have accrued under various other unfunded schemes.

8. Capital stock

	Number of Common Shares	$
Balance at February 1, 1976	13,984,893	42,121,000
Issued under employee share purchase plan	110,700	1,661,000
Balance at January 31, 1977	14,095,593	43,782,000
Issued under employee share purchase plan	59,175	842,000
Balance at January 31, 1978	14,154,768	44,624,000

9. Joint venture operations

The Company's share of real estate joint venture operations accounted for by the equity method is summarized as follows:

	This Year	Last Year
	$	$
Assets		
Accounts receivable	5,070,000	4,900,000
Property for sale and future development	26,553,000	22,684,000
Fixed assets	74,756,000	68,057,000
	106,379,000	95,641,000

Liabilities and Equity		
Bank indebtedness	16,138,000	5,750,000
Accounts payable	6,271,000	6,844,000
Bonds and mortgages	70,415,000	65,699,000
	92,824,000	78,293,000
Investment in real estate joint ventures	13,555,000	17,348,000
	106,379,000	95,641,000
Revenue and Earnings		
Gross revenue	15,470,000	12,364,000
Interest	4,323,000	3,994,000
Depreciation	821,000	742,000
Other expenses	8,711,000	4,398,000
Pretax income from real estate joint ventures	1,615,000	3,230,000

10. Directors and officers

In the current year aggregate remuneration of 18 directors, in their capacity as directors, was $106,000; aggregate remuneration of 12 officers, in their capacity as officers was $1,134,000; five of the officers, one of whom retired, were also directors. In addition, four officers, three of whom were also directors, received aggregate remuneration of $10,000 from Markborough Properties Limited in their capacity as directors of that subsidiary company.

Loans due from officers of the Company at January 31, 1978, principally in respect of the share purchase plan, amounted to $829,000 (last year $561,000).

11. Commitments and contingencies

Minimum annual rentals under major property leases amount to approximately $12,800,000 for which the remaining average term is 22 years.

The Company has commitments, along with others, relating to its investments in certain shopping centre companies and joint ventures. These are:

a) The commitment to meet certain obligations of two shopping centre companies in the event of their default in payment of long-term mortgage bonds secured by the assets of these two companies.
b) The guarantee, severally, of indebtedness of three real estate joint ventures.
c) The contingent liability of Markborough Properties Limited for obligations of its co-owners in unincorporated joint ventures.

In the event that the Company had to meet any of these commitments it would have a claim on the assets of the applicable development. The value of the assets of each development exceeds the related contingent commitment.

12. Federal anti-inflation legislation

The Company and its Canadian subsidiaries are subject to, and management believes they have complied with, controls on prices, profits, compensation and dividends to shareholders under the Canadian Federal Government's anti-inflation program. The Government is to begin withdrawal of these controls on April 14, 1978.

13. Events subsequent to year end

Under an agreement dated January 26, 1978 between Hudson's Bay Company Properties Limited and Dominion Securities Limited and Richardson Securities of Canada as underwriters, Hudson's Bay Company Properties Limited sold to the underwriters on March 9, 1978 $35,000,000 principal amount of 10% First Mortgage Bonds Series E for the sum of $34,247,000.

During the month of February 1978 a U.K. subsidiary company sold its investment in The Glenlivet Distillers Limited which resulted in an extraordinary gain of approximately £ 1,800,000.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet and the consolidated statement of assets employed of Hudson's Bay Company as at January 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. For Hudson's Bay Company and for those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For Markborough Properties Limited which is consolidated and for other companies accounted for by the equity method in these financial statements, we have relied on the reports of the auditors who have examined their financial statements for their respective latest fiscal years, and have obtained such other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Hudson's Bay Company as at January 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Toronto, Canada
March 10, 1978

Hudson's Bay Company
Ten Year Consolidated Financial Summary

		1977	1976
Results for year ($000's)	Sales and revenue		
	Retail	**1,019,831**	992,575
	Wholesale	**323,810**	263,461
	Fur	**34,059**	26,987
	Merchandising	**1,377,700**	1,283,023
	Real estate	**36,004**	52,945
	Natural resources	**13,686**	10,480
		1,427,390	1,346,448
	Fur consignment sales	**283,000**	244,344
	Source of earnings		
	Retail	**40,912**	34,922
	Wholesale	**8,064**	7,622
	Fur	**7,706**	6,286
	Merchandising	**56,682**	48,830
	Real estate	**14,856**	23,207
	Natural resources	**13,686**	10,480
	Interest on long-term debt	**(34,813)**	(28,097)
	Net short-term interest	**(2,538)**	(5,346)
	Earnings before income taxes and minority interest	**47,873**	49,074
	Income taxes	**16,095**	21,184
	Earnings before minority interest	**31,778**	27,890
	Minority interest	**1,897**	3,080
	Net earnings	**29,881**	24,810
	Dividends	**9,181**	8,391
	Earnings retained	**20,700**	16,419
	Cash flow	**48,209**	47,645
	Capital expenditures	**43,075**	38,163
	Depreciation	**16,473**	14,598
Year end financial position ($000's)	Merchandising	**580,461**	505,857
	Real estate	**222,686**	208,179
	Natural resources	**29,595**	23,881
	Assets employed	**832,742**	737,917
	Debt	**535,470**	463,473
	Minority interest	**21,308**	20,022
	Shareholders' equity	**275,964**	254,422
Per share results (Dollars)	Net earnings	**2.12**	1.77
	Dividends	**.65**	.60
	Shareholders' equity	**19.50**	18.05
	Including equity in undistributed earnings of HBOG		
	Net earnings	**3.16**	2.55
	Shareholders' equity	**24.86**	22.36
Shareholders and employees	Number of shareholders	**20,870**	21,861
	Shares outstanding (000's)	**14,155**	14,096
	Range in share price (Dollars)	**19⅛—14⅛**	20⅞—13½
	Number of employees	**20,000**	20,000

Note: Where appropriate, figures have been restated and non-recurring items have been excluded for the purpose of comparability.

1975	1974	1973	1972	1971	1970	1969	1968
892,766	780,854	641,063	538,989	440,685	406,096	393,556	377,732
231,995	190,875	153,456	126,414	111,612	102,788	91,312	84,043
21,178	22,304	21,190	15,475	13,565	10,172	12,787	13,887
1,145,939	994,033	815,709	680,878	565,862	519,056	497,655	475,662
32,174	17,852	4,294	862	—	—	—	—
8,020	6,308	5,853	5,485	4,927	4,410	4,193	4,232
1,186,133	1,018,193	825,856	687,225	570,789	523,466	501,848	479,894
185,252	175,661	167,250	131,666	109,238	81,723	92,258	110,214
34,868	32,308	27,666	23,738	19,225	17,929	20,319	21,666
6,897	5,808	4,051	3,316	3,137	2,668	2,361	2,650
4,537	4,719	4,968	2,993	2,541	328	1,033	2,184
46,302	42,835	36,685	30,047	24,903	20,925	23,713	26,500
14,615	10,313	2,191	715	—	—	—	—
8,020	6,308	5,852	5,485	4,927	4,410	4,193	4,232
(24,161)	(19,202)	(11,714)	(7,464)	(6,907)	(5,525)	(3,503)	(2,873)
(2,508)	(5,291)	254	(1,404)	188	(109)	(614)	(424)
42,268	34,963	33,268	27,379	23,111	19,701	23,789	27,435
18,548	15,514	15,158	11,725	9,798	8,729	10,832	12,732
23,720	19,449	18,110	15,654	13,313	10,972	12,957	14,703
1,716	1,029	446	—	—	—	—	—
22,004	18,420	17,664	15,654	13,313	10,972	12,957	14,703
8,362	8,286	7,661	7,048	7,048	6,828	6,980	6,872
13,642	10,134	10,003	8,606	6,265	4,144	5,977	7,831
42,760	34,010	29,795	25,507	21,277	18,207	20,419	21,574
29,586	41,715	56,588	27,282	17,849	11,124	14,039	10,995
13,157	11,485	9,314	7,607	6,342	5,963	6,966	6,198
445,564	451,201	378,913	308,929	272,711	246,665	235,013	200,430
163,793	156,791	137,794	7,630	5,127	2,069	1,635	1,645
20,142	17,763	16,305	10,095	10,095	10,095	10,095	10,095
629,499	625,755	533,012	326,654	287,933	258,829	246,743	212,170
375,184	387,187	306,543	130,219	100,478	78,696	69,871	41,613
17,973	16,618	16,180	754	380	—	—	—
236,342	221,950	210,289	195,681	187,075	180,133	176,872	170,557
1.58	1.33	1.29	1.16	.98	.81	.96	1.08
.60	.60	.56	.52	.52	.50	.51	.51
16.90	15.93	15.23	14.44	13.80	13.29	13.05	12.58
2.28	1.94	1.67	1.39	1.17	.96	1.09	1.19
20.46	18.81	17.51	16.38	15.13	14.43	14.04	13.44
22,806	24,036	24,474	24,880	25,558	28,945	32,142	31,066
13,985	13,936	13,809	13,553	13,553	13,553	13,553	13,553
8⅝—14¼	20—9¾	22¾—15	21⅛—16½	20—14½	22—11½	25¼—17	27¼—19¾
20,000	20,000	18,000	17,000	16,000	15,000	15,000	15,000

Corporate Information

Head Office
Hudson's Bay House, 77 Main Street,
Winnipeg, Manitoba R3C 2R1

Principal Bankers
Canadian Imperial Bank of Commerce
Bank of Montreal

Registrars and Transfer Agents
The Royal Trust Company, Calgary, Montreal, Toronto, Vancouver and Winnipeg
Williams & Glyn's Registrars Limited, London

Stock Exchange Listings
London, Montreal, Toronto and Winnipeg

Auditors
Peat, Marwick, Mitchell & Co.

Principal Subsidiary Companies

(wholly-owned unless otherwise indicated)

Incorporated in Canada

Hudson's Bay Company Acceptance Limited
Purchases accounts receivable

Hudson's Bay Company Developments Limited
Property owning company

Hudson's Bay Company Investments Limited
Investment holding company

Hudson's Bay Company Properties Limited
Property owning company

Hudson's Bay Company Properties (Quebec) Limited
Property owning company

Hudson's Bay Company (Quebec) Limited
Operating subsidiary in Quebec

Markborough Properties Limited
Property development company
2,573,002 common shares (64.3%)

Incorporated in the United States of America

Hudson's Bay Company Fur Sales Incorporated
Fur brokers

Incorporated in England

Hudson's Bay and Annings Ltd.
Fur brokers
147,500 ordinary shares (59%)

Beaver House Limited
Property owning company

Principal Investments

Merchandising

The G. W. Robinson Company, Limited
Operates department stores in Hamilton-St. Catharines-Niagara area
108,178 common shares (27%)

Eaton/Bay Financial Services Limited
Markets financial services
531,619 shares (34.7%)

Natural Resources

Hudson's Bay Oil and Gas Company Ltd.
Petroleum exploration and production
4,008,656 common shares (21.1%)

Siebens Oil & Gas Ltd.
Petroleum exploration and production
3,203,000 shares (34.8%)

Real Estate (excluding Markborough Properties Limited)

City	Name	Area (sq. ft.)	Interest (%)
Shopping Centres			
Vancouver	Champlain Mall	208,000	100
Vancouver	Richmond Centre	215,000	100
Vernon	Village Green Mall	311,000	25
Cranbrook	Tamarack Shopping Centre	296,000	33⅓
Calgary	Market Mall	689,000	25
Calgary	Southcentre	678,000	100
Edmonton	Southgate	684,000	40
Brooks	Cassils Shopping Centre	111,000	25
Lloydminster	Lloydmall	108,000	100
Winnipeg	Unicity Fashion Square	550,000	33⅓
Toronto	Cloverdale Mall	452,000	100
Toronto	Fairview Shopping Centre	700,000	25
Montreal	Place Vertu	700,000	25
Chicoutimi	Place du Royaume, Phase III	230,000	25
Val d'Or	Carrefour du Nord Ouest (under construction)	210,000	50
Office/Commercial Buildings			
Winnipeg	Hudson's Bay House	111,000	100
Winnipeg	Rupertsland Square	248,000	33⅓
Montreal	2021 Union Avenue	151,000	100
London, England	Beaver House	145,000	100

Board

George T. Richardson ★ ♦
Winnipeg
President, James Richardson & Sons, Limited
Governor

A. J. MacIntosh, Q.C. ★
Toronto
Partner, Blake, Cassels & Graydon
Deputy Governor

D. S. McGiverin ★ ♦
Toronto
President

P. W. Wood ★
Toronto
Executive Vice-President

★ Member of Executive Committee
♦ Member of Audit Committee

I. A. Barclay
Vancouver
Chairman of the Board,
British Columbia Forest Products Limited

M. Bélanger
Quebec
Partner, Bélanger, Dallaire, Gagnon & Associés

Sir Eric Drake, C.B.E.
London
Company Director

G. R. Hunter, M.B.E., Q.C. ♦
Winnipeg
Partner, Pitblado & Hoskin

M. W. Jacomb ★
London
Vice Chairman, Kleinwort, Benson Limited

Josette D. Leman
Montreal
Travel Consultant

W. D. C. Mackenzie ♦
Calgary
President, W. D. C. Mackenzie Consultants Ltd.

A. M. McGavin ♦
Vancouver
Chairman of the Board,
McGavin Toastmaster Limited

Dawn R. McKeag
Winnipeg
Company Director

G. C. Hoyer Millar
London
Director, J. Sainsbury Ltd

J. H. Moore ★
London, Ontario
Chairman & Chief Executive Officer,
Brascan Limited

J. Bartlett Morgan
Montreal
Honorary Chairman, The Morgan Trust Company

The Rt. Hon. Lord Trend, P.C., G.C.B., C.V.O.
Oxford, England
Rector, Lincoln College

Senior Management

L. J. Henry
Vice-President, Furs

M. H. MacKenzie
Vice-President, Personnel

J. G. W. McIntyre
Vice-President, Retail Development

T. I. Ronald
Vice-President, Finance

D. O. Wood
Vice-President, National Stores & Wholesale

A. R. Huband
Secretary

D. W. Mahaffy
Treasurer

C. W. Evans
General Manager, Department Stores

J. E. Church
General Merchandise Manager,
Department Stores

A. A. Adamic
General Manager, Western Region

H. L. Spelliscy
General Manager, Edmonton Region

G. J. Kosich
General Manager, Calgary Region

D. K. McConnell
General Manager, Central Region

A. A. Guglielmin
General Manager, Toronto Region

J. B. Bustard
General Manager, Ottawa Region

P. Dalpé
General Manager, Montreal Region

P. W. Schmidt
General Manager, Food Services

D. G. Buckley
General Manager, Shop-Rite Catalogue Stores

J. L. Klapp
General Manager, Wholesale Department

D. B. Byers
Manager, Fur Sales Department, Montreal

H. M. Dwan
Managing Director,
Hudson's Bay and Annings Limited

W. F. Thompson
Senior Vice President,
Hudson's Bay Distillers Limited

The Company — A Brief Description

The Company today

Merchandising . . . More than 300 stores, ranging from Newfoundland to the Yukon and from the Arctic Islands to the United States border, serve the diversified needs of Canadians. The Bay is strongly represented in ten of Canada's important cities and is the leading retailer throughout the Canadian North. Shop-Rite catalogue stores are located in Ontario. The Wholesale Department distributes giftwares, confectionery and tobacco products through a network of branches located from coast to coast. The Company's famous blankets and spirits are sold throughout Canada.

The Company maintains its traditional interest in fur with auction houses in Montreal, New York and London.

Natural Resources . . . The Company's natural resource interests consist of equity investments in two Canadian petroleum companies. HUDSON'S BAY OIL AND GAS COMPANY LIMITED, 21.1% owned, was formed in the 1920's as a joint venture between HBC and Continental Oil Company, and is today one of Canada's leading exploration and production companies. Most of its current production of oil and natural gas is from the province of Alberta. Exploration rights are owned in Canada and many other countries. SIEBENS OIL & GAS LTD., 34.8% owned, is a Canadian company whose emphasis at this stage of its development is on exploration. Siebens holds exploration rights in many areas of the world including western Canada, the Arctic Islands, the Atlantic Coast and the North Sea. Most of its current production is from royalty rights acquired in 1973 from HBC.

Real Estate . . . The Company's real estate interests consist principally of whole or partial ownership of shopping centres and commercial buildings in Canadian cities, ownership of Beaver House Limited in London, England, and of a 64.3% interest in MARKBOROUGH PROPERTIES LIMITED. Markborough is a Canadian property development company with substantial holdings of residential, commercial and industrial properties located in the Toronto area and in other Canadian and United States cities.

Personnel . . . In its various activities, the Company employs over 20,000 people.

History

Incorporation . . . King Charles II granted on May 2, 1670 to 18 Adventurers a Charter incorporating them as The Governor and Company of Adventurers of England trading into Hudson's Bay. This followed the successful voyage of the ketch *"Nonsuch,"* with Des Groseilliers aboard, to Hudson Bay to trade for furs.

In 1970, three hundred years after its incorporation, the Company was continued as a Canadian corporation and the headquarters were transferred from the United Kingdom to Canada.

Competition . . . During the first century of the Company's existence the men on the Bay established forts, traded with the Indians and were involved in wars with the French.

As competition from the Montreal-based North West Company increased in the 1770's, the Company moved into the interior and gradually built a network of routes and forts spread out over the north and west. The two rival companies amalgamated under the Hudson's Bay Company name in 1821.

Deed of Surrender . . . In 1870, by Deed of Surrender, the Company's chartered territory was formally transferred to the Government of Canada in return for farm lands in the prairie provinces which were sold to settlers during the next 85 years.

Following the Deed of Surrender the Company turned its attention to the retail trade which is now its most important activity.

Fashion Photography by Claude Noel
Printed in Canada by Swiss Print Inc.

Hudson's Bay Company

INCORPORATED 2ND MAY 1670

NOTICE OF MEETING

1. The 308th ANNUAL GENERAL MEETING of The Governor and Company of Adventurers of England trading into Hudson's Bay will be held at the Winnipeg Inn, Winnipeg, Manitoba, on May 20, 1977 at 12:00 noon.

2. A Resolution will be proposed to appoint Messrs. Peat, Marwick, Mitchell & Co., Auditors, and authorize the Directors to fix their remuneration. **(Resolution No. 1)**

3. The following Director was appointed during the year by the Board and now retires but, being eligible, is proposed for re-election as a Member of the Board:
   M. Bélanger **(Resolution No. 2)**

4. Directors retiring by rotation and proposed for re-election as Members of the Board are:
   I. A. Barclay **(Resolution No. 3)**
   G. R. Hunter, M.B.E., Q.C. **(Resolution No. 4)**
   A. J. MacIntosh, Q.C. **(Resolution No. 5)**
   D. S. McGiverin **(Resolution No. 6)**
   D. R. McKeag **(Resolution No. 7)**
   The Rt. Hon. Lord Trend, P.C., G.C.B., C.V.O. **(Resolution No. 8)**

5. A Resolution will be proposed at the Meeting to approve and adopt the Directors' Report and the Consolidated Financial Statements of the Company and its subsidiaries for the year ended January 31, 1977 **(Resolution No. 9)**

6. Each registered shareholder of record at the close of business May 11, 1977, will be entitled to vote at the meeting.

HUDSON'S BAY HOUSE,
77 MAIN STREET,
WINNIPEG, MANITOBA R3C 2R1

By Order of the Board
A. R. HUBAND
Secretary

April 27, 1977

If it is not your intention to be present at the Meeting, please exercise your right to vote by signing and returning your form of proxy in the envelope enclosed herewith for that purpose

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Hudson's Bay Company of proxies to be used at the Annual General Meeting of the Company to be held at the time and place and for the purposes set forth in the accompanying Notice of Meeting. It is expected that the solicitation will be primarily by mail. The cost of solicitation by management will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are Directors of the Company.

A shareholder desiring to appoint some other person to represent him at the meeting may do so, either by inserting such other person's name in the blank space provided in the form of proxy or by completing another proper form of proxy, and in either case, forwarding the completed proxy so as to arrive at the office of the Secretary or Registrar of the Company at least 48 hours before the meeting.

A shareholder who has given a proxy may revoke it as to any Resolution on which a vote has not already been cast pursuant to its authority by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Company on or before the last business day preceding the day of the meeting or adjournment thereof at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting or adjournment thereof.

EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote or withhold from voting the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them.

In the absence of such direction, such shares will be voted for approval of the Directors' report and financial statements, and for the election of Directors and appointment of Auditors as stated under those headings in this circular.

The enclosed form of proxy confers discretionary authority on the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, and with respect to other matters which may properly come before the meeting. At the time of printing this circular, the management of the Company knows of no such amendments, variations or other matters to come before the meeting.

VOTING SHARES AND RECORD DATE

As of the date of this circular the Company had outstanding 14,095,593 ordinary shares of no par value, each carrying the right to one vote. Each registered shareholder of record at the close of business May 11, 1977, will be entitled to vote at the meeting.

The Directors and Senior Officers of the Company do not know of any person or company beneficially owning, directly or indirectly, shares carrying more than 10% of the voting rights attached to all shares of the Company.

ELECTION OF DIRECTORS

The Board consists of not less than 12 and not more than 22 Directors, including a Governor and Deputy Governor. One third of the Members of the Board, or if the number of Members of the Board is not a multiple of three, the number nearest to but not exceeding one third of their total number, shall retire by rotation in each year.

Unless otherwise instructed the persons named in the enclosed proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are now Members of the Board of Directors and have been since the dates indicated. Management does not contemplate that any of the nominees will be unable to serve as a Director, but if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each Director elected will hold office until retirement by rotation or otherwise in accordance with the Company's Charter.

a) There is set out below the name of each Director retiring by rotation and proposed for re-election as a Member of the Board at the said Annual General Meeting. Also shown are all other positions and offices with the Company now held by him, his principal occupation or employment, the year in which he became a Director of the Company, and the approximate number of shares of the Company that he has advised is beneficially owned, directly or indirectly, by him as of the date hereof.

	Became a Director	Shares
I. A. BARCLAY, of Vancouver, British Columbia, is Chairman and Chief Executive Officer of British Columbia Forest Products Limited.	1975	500
G. R. HUNTER, M.B.E., Q.C., of Winnipeg, Manitoba is a partner of Pitblado & Hoskin, barristers and solicitors.	1963	200
A. J. MacINTOSH, Q.C. of Toronto, Ontario, is a partner of Blake, Cassels & Graydon, barristers and solicitors, and Deputy Governor of the Company.	1969	500
D. S. McGIVERIN, of Toronto, Ontario, is President of the Company.	1969	22,260
D. R. McKEAG, of Winnipeg, Manitoba, is a freelance writer.	1975	500
THE RT. HON. LORD TREND, P.C., G.C.B., C.V.O., of Oxford, England, is Rector of Lincoln College.	1973	25

b) The Board has the power to appoint any person to be a Member of the Board to fill a casual vacancy and any Member so appointed shall hold office only until the next following General Meeting and shall then be eligible for re-election. There is set out below the name of a Director who was appointed during the year by the Board and now retires but being eligible is proposed for re-election as a Member of the Board. Also shown are all other positions and offices with the Company now held by him, his principal occupation or employment for the five previous years, the year in which he became a Director of the Company and the approximate number of shares of the Company that he has advised is beneficially owned, directly or indirectly, by him as of the date hereof.

M. BÉLANGER, is a partner of Bélanger, Dallaire, Gagnon & Associés.	1976	500

CONTINUING DIRECTORS

There is set out below the name of each Director not retiring by rotation and whose term of office as a Director will continue after the meeting, together with information as to all other positions and offices with the Company now held by him, his principal occupation or employment, the year in which he became a Director of the Company, the year in which he was last re-elected a Director of the Company and the approximate number of shares of the Company that he has advised is beneficially owned, directly or indirectly, by him as of the date hereof.

	Became a Director	Last Re-elected	Shares
SIR ERIC DRAKE, C.B.E. of London, England, is a Company Director.	1976	1976	25
G. C. HOYER MILLAR, of London, England, is a director of J. Sainsbury Limited.	1976	1976	25
M. W. JACOMB, of London, England, is a Director of Kleinwort, Benson Limited, merchant bankers.	1971	1975	25
J. LEMAN, of Montreal, Quebec, is a travel consultant.	1973	1976	400
W. D. C. MACKENZIE, of Calgary, Alberta, is President of W. D. C. Mackenzie Consultants Ltd., petroleum consultants.	1972	1975	100
A. M. McGAVIN, of Vancouver, British Columbia, is Chairman of the Board of McGavin Toastmaster Limited, manufacturers and distributors of bakery products.	1969	1976	2,000

	Became a Director	Last Re-elected	Shares
J. H. MOORE, of London, Ontario, is Chairman and Chief Executive Officer of Brascan Limited.	1971	1975	200
J. B. MORGAN, of Montreal, Quebec, is Honorary Chairman of the Board of The Morgan Trust Company.	1960	1975	200
G. T. RICHARDSON, of Winnipeg, Manitoba, is President of James Richardson & Sons, Limited, grain merchants, and Governor of the Company.	1968	1976	18,950
R. E. SHEEN, of Toronto, Ontario, is Vice President, Department Stores, of the Company.	1964	1976	1,170
P. W. WOOD, of Toronto, Ontario, is Executive Vice President of the Company.	1973	1976	4,875

REMUNERATION OF DIRECTORS AND OFFICERS

Aggregate remuneration paid or payable by the Company to the Directors of the Company in their capacities as Directors in respect of the Company's fiscal year ended January 31, 1977, was $100,000.

Aggregate remuneration paid or payable by the Company to the Officers of the Company in their capacities as Officers in respect of the Company's fiscal year ended January 31, 1977, was $754,000.

In addition, four Officers, three of whom were also Directors, received aggregate remuneration of $9,000 from Markborough Properties Limited in their capacities as Directors of that subsidiary company.

The estimated aggregate cost to the Company in the fiscal year of the Company ended January 31, 1977, of all pension benefits proposed to be paid under any pension plan or plans in the event of retirement at normal age, directly or indirectly, by the Company to Directors and Officers of the Company was $85,000.

Pursuant to any existing plan or arrangement, the maximum annual aggregate of future payments proposed to be made directly or indirectly, by the Company to its Directors and Officers, while employed by the Company, is $140,000.

The maximum annual aggregate amount of deferred compensation benefits proposed to be paid to Directors and Officers following termination of their employment is $26,000.

Loans with interest at the rate of 4% per annum have been granted to over 300 senior executives, including eight Officers or Directors, for the purpose of enabling them to purchase shares of the Company.

The largest aggregate indebtedness outstanding at any time since the beginning of the last completed financial year with respect to such Officers or Directors was $509,000, and the amount presently outstanding is $507,000.

INTEREST IN MATERIAL TRANSACTIONS

Under an agreement dated October 14, 1976, between Hudson's Bay Company Acceptance Limited (Acceptance), a wholly-owned subsidiary, and Dominion Securities Harris & Partners Limited and Richardson Securities of Canada (the underwriters), Acceptance sold to the underwriters on November 15, 1976, $35,000,000 principal amount of debentures at an effective price of $98.25 of the principal amount, plus accrued interest from November 15, 1976 to date of delivery.

George T. Richardson, Governor of the Company, is a partner in Richardson Securities of Canada.

APPOINTMENT OF AUDITORS

A Resolution will be proposed at the Annual General Meeting to re-appoint Messrs. Peat, Marwick, Mitchell & Co. as Auditors of the Company, and to authorize the Directors to fix their renumeration.

Dated as of April 15, 1977